

Education Cabinet

Kentucky Board of Education

Department of Education

(Amendment)

702 KAR 3:090. Depository bond, penal sum.

RELATES TO: KRS 156.010, 160.570

STATUTORY AUTHORITY: KRS 156.029(7), 160.570

NECESSITY, FUNCTION, AND CONFORMITY: KRS 156.029(7) requires the Board of Education to develop policies and to promulgate administrative regulations by which the Department of Education shall be governed. KRS 160.570 requires each local board of education - designated depository of funds to execute bond for the faithful performance of its duties, and the bond shall be approved by local board and the Commissioner of Education. KRS 160.570 also defines the nature and qualifying sureties for the bond and requires the Kentucky Board of Education to regulate the penal sum of the bond. This administrative regulation establishes standards for bonds of depository.

Section 1. ~~[By July 1 of each year, on the advice of the superintendent,]~~ A local board of education, on advice of the superintendent, shall determine the penal sum of the bond of depository at least 30 days prior to the depository entering upon its duties and by July 1 of each fiscal year thereafter.

Section 2. The district shall obtain approval for the bond of depository from the Commissioner of Education prior to the depository entering upon its duties. A

depository bond shall not be approved by the Commissioner of Education if the Commissioner determines that the bond is inadequate to insure the deposits of the local board of education, pursuant to the commissioner's authority in KRS 156.010.

Section 3. (1) ~~[As security for the bond, the depository bank shall deposit with its escrow agent collateral in an amount equal to the penal sum of the bond. The collateral shall consist of:~~

~~(a) United States Government Bonds;~~

~~(b) Kentucky School Revenue Bonds; or~~

~~(c) Federal government agency obligations, including obligations of the Federal Farm Credit Banks, the Federal National Mortgage Association, and the Federal Home Loan Bank]~~

~~[(2)]~~ The penal sum of the depository bond shall be at least equal to either; (a) 103% of the current daily balances in each account as they may fluctuate throughout the life of the bond; or (b) the [average of the] highest daily balance in each account [in] each month [;] for all accounts in the previous year. The penal sum of the depository bond shall be adjusted to reflect expected increases or decreases in the highest daily ~~[day]~~ balances due to anticipated changes of deposit amounts in the current year.

~~(2)[(3)]~~ The escrow agent for a depository choosing to use a collateral bond shall file safekeeping receipts with the local board of education as evidence of any ~~[that]~~ collateral that has been pledged in accordance with the provisions of the bond executed by the depository institution. To reduce **the penal sum of a** collateral **[of a]** bond, the local board of education shall submit a notice, with reasons for the reduction, to the Commissioner of Education. A local board of education shall not permit a reduction of the collateral of a

- 1 bond without execution of a new bond with prior approval of the Commissioner of
- 2 Education.